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WORKING CAPITAL FUND BOARD
MINUTES OF MEETING
NOVEMBER 10, 1999

Attendees: See attached list.

(1) INTRODUCTION

The meeting was brought to order by the Acting Chair, Thomas Tamura, Deputy Director of Management and Administration, at 1:35 p.m.

Mr. Tamura took the opportunity to say a few words about Ed Inge, who passed away in May of this year. He noted that Ed was one of the ”Founding Members” of the Board, and a person of great integrity. He will be missed.

The Chair recognized the presence of Maria Mitkitka and Kevin Carroll from the Office of Management and Budget.

(2) APPROVAL OF MINUTES OF APRIL 22, 1999 MEETING

The Board approved the minutes without discussion.

(3) FY 1999 ANNUAL REPORT

The Chair asked the Fund Manager, Howard Borgstrom, to brief the Board on the FY 1999 Annual Report. Mr. Borgstrom stated that the Fund had a good year, and he made the following points about the year’s performance:

- <u>Relation of earnings to expenses</u>. The Fund had net earnings of $2.3 million over three years of operation, less than 1% of total sales.
- <u>Relation of customer payments to customer billings</u>. All customers paid their bills in full.
- <u>Relation of payments to obligations by business line</u>. There were no violations of administrative control of funds procedures by the Fund overall, and this was also true of the individual business lines.
- <u>Accuracy of Billing forecasts by business line and customer</u>. Forecasts have proven to be reliable,for the most part, although they have been adversely effected the restructuring of some customer organizations.
- <u>Timeliness and accuracy of bills</u>. Billing was timely and accurate using the new system. Billing data were entered into DISCAS each month by the cutoff date, allowing customers to use data from the accounting system on a current basis.

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- <u>Price reductions taken by the Fund Manager</u>. For FY 2000, the unit cost for copies at staffed and central machines will be reduced from 3.2 to 2.8 cents per copy. The mail business line will continue FY 1999 price cuts for mail stops and pouch mail through continued drawdown of prior year prepaid balances on the postage meter.

- <u>Areas of concern</u>. Mr. Borgstrom drew the Board's attention to:
  - The need to finance the deficit in the Desktop business from the early years of the Fund, and asked the Board for authority to transfer up to $250,000 from the networking business line to desktop.
  - The need to decide on financing telephone equipment depreciation and upgrades.

- <u>Status of operating efficiency metrics</u>. Mr. Borgstrom mentioned that efficiencies realized at the beginning of the Fund are starting to level off, and some businesses, notably mail, are seeing increased demand from customers.

After brief discussion the Board gave approval for the Fund Manager to transfer up to $250,000 from the networking business line to desktop.

(4) INSPECTOR GENERAL REPORT

The Secretary reported to the Board on the FY 1999 IG audit report. In the report the IG stated: "The fund was operated in compliance with the required administrative controls, used performance measures appropriately, and implemented actions to correct problems identified in the prior period where feasible." Mr. Fygi of the General Counsel stated that the Board should be aware that receiving a report this positive was a rare event.

(5) FY 2000 PRICING POLICY ISSUE: TELEPHONE INFRASTRUCTURE

The Board Secretary noted that action on this issue was deferred at the April 22, 1999, Board meeting. The issue arose because the original pricing structure for the Telephone Business Line did not include equipment depreciation or replacement. The following points were made:

- Under the current pricing policy not enough money is being collected to cover both operating costs and depreciation, and therefore insufficient funds are being set aside to replace and/or upgrade telephone capital equipment.
- In FY 1998 the telephone switch for HQ was upgraded for Y2K compliance at a cost of $2 million, increasing annual depreciation charges by $100 thousand for remaining accounting life of the equipment. Current depreciation charges are expected to be approximately $700,000 per year.
- The business line will obligate an estimated $500 thousand in FY 2000 under a contract for continuing upgrades of telephone switching equipment.

The Fund Manager recommended that the pricing structure for the Telephone Business Line be increased by approximately 14% beginning in FY 2000 to cover these costs.

The ensuing Board discussion covered the following points:

- The $2 million for Y2K upgrades were accomplished with MA cash infusion.

- Board members would like to review a CIO long term plan for phone system replacement or modernization.

- Under the Fund concept, organizations with annual appropriations may obligate such funds to cover equipment depreciation/modernization charges imposed by the Fund.

- Several members supported the concept of using the Fund to fund depreciation, but expressed the need for timing coordination with the budget.

After discussion the Board decided the following:

- The Board approved an increase in infrastructure charges of approximately $700,000 to allow recovery of equipment replacement costs. Consistent with current pricing policy, the new infrastructure amount is fixed for the year and will be divided by total number of telephone lines (Balun, Centrex, DPU, Dual, Single) to determine the unit (per line) charge for customer billing. This per line charge will be periodically recalculated and will fluctuate as the total number of lines is revised on a continuous basis.

- Business line officials should provide an inventory of future equipment acquisitions or future capital needs that would require a price increase. Businesses should try to anticipate investment requirements with sufficient lead-time to allow customers to include them at the time of initial budget formulation.

- The CIO organization should provide the Board a plan to reduce or reengineer telephone infrastructure.

(8) OTHER MATTERS

(A) David Klaus, Board Chair, made a brief appearance before the Board in between meetings with the Secretary. He raised the following issue for future Board consideration: How should the Department finance the on-going operating costs of new corporate information systems as they graduate from the CMIP Program? Some of the associated questions that need to be answered are: Should the Fund be used to fund corporate management systems operation? What pricing mechanism should be used? Should we use a per capita tax or a user fee that would decentralize funding, or should they be funded as a centralized budget item?

(B) The Board Secretary indicated that the Chair would likely seek the views of Members regarding Board Membership for calendar year 2000.

(C) The Fund staff will issue budget guidance the week of November 15, 1999.

(D) The Board indicated its interest in meeting during December on planning items.

(9) ADJOURN

The meeting was adjourned at 3:00 PM.

BOARD:
Chair: Thomas Tamura (Acting)
CFO Betty Smedley
GC Eric Fygi
EH Geoff Judge
EI Steve Durbin
NE John Stamos
SC John Clark
DP Roger Lewis
EM Allison Young
NN Jim Lambert
EE Buddy Garland
IN (Not Represented)
PO Beth Campbell
FE Chuck Roy
Board Secretary: Howard Borgstrom

GUESTS:
Maria Mikitka and Kevin Carroll (OMB)

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ATTENDEES:
CIO:
Mary Ann Wallace
HG:
Pat Spencer
CR:
Woody Fisher
Phil Pagnato
Penny Lamb
JoAnn Luzak
Kristen Kaderabek
Kathy Schanck
GC:
Ralph Goldenberg
CI/PA:
Laura Brown
IA:
Camille Jagessar
SO:
Flo Linn
Chuck Guyker
Rich Otis
MA:
Doug Bielan
Louis D’Angelo
Amos Street
Steve Perin
Margaret O’Brien
Ed Poey
Cherylynne Williams
John Harrison
Mary Anderson
Dean Smith
Fran Feiner
Pete Richards
Vince Brooks
Ingrid Robinson
Roscoe Harris
Tony Nellums
Charlie Morris